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Exports Performance of Pakistan's Textile Industry

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Abstract
This study provides an overview about the declining state of textile exports. Various issues have been discussed in this regard. All our efforts are devoted to investigate the performance of exports in textile industry of Pakistan. The purpose of this study was to realize the reasons behind the subject matter. Primary data as well as secondary data was collected for this study. The sample size is all the textile companies of Pakistan. We also collected primary data by administering questionnaires to economists, research analysts, textile companies, State Bank of Pakistan (SBP) and Pakistan Stock Exchange (PSX). In this study, we have analyzed the impact of various factors on Gross Domestic Product (GDP). It was found that the policies are not supporting the concerned industry to optimize the production level which is of major concern. It ultimately affects the trade transactions of textile products. We have also provided recommendations that should be taken by government. Most importantly, it must implement textile policies to make the country progress.
Keywords: declining state, textile exports, analyzed, supporting, trade

Introduction

Textile and clothing Industry is the most prominent Industrial Sector of Pakistan, considered as the pillar of Pakistan's economy. It is grounded on locally available raw cotton, provide largest employment opportunities and play a vital role in foreign exchange earnings. Pakistan is the 4th abundant manufacturer as well as 3rd large consumer of cotton. According to All Pakistan Textile Mill Association (APTMA), this sector contributes 8.5% to the GDP (Gross Domestic Product), more than of 63% in total exports of Pakistan. In addition, the sector employs about 40% of workers of the country.

Textile sector of Pakistan play an effective part in the economic progress of the country. The objective of any country is to enlarge the sector which contributes a significant share in export, GDP and providing different opportunities of employment (Sarwar 2012)

In the past, the operational activities of this sector were impressive. Pakistan is an agriculture based country. At the time of independence, 14th August 1947, there were only 3 textile mills. Now, it increases to 600 textile industries. (PACRA 2011)

Pakistan became the 4th largest textile exporter due to its quality progress in this sector but regrettably Pakistan is facing very serious issues which influence Pakistan's textile industry very awfully. The challenges faced are the improper use of resources, undersupply of gas and electrical energy, lack of collaboration by Research & Development institutions, high cost of production, devaluation of Pakistani currency, outdated machineries, textile related policies and law and order situation of the country. The quality of product is not up to the mark as compared to other countries like India, China and Bangladesh due to which Pakistan is facing stiff competition in international market, particularly value added goods declined the size of foreign trade in Pakistan. It also results in the decline of exports, which shows a negative effect in Balance of Payment because in the international market, good quality products are available at very reasonable rates.

The economy of Pakistan is going down. The rising inflation rates, bad planning and policies, low rate of GDP, political instability, no implementation of rules and laws results in the decline of Foreign Direct Investments. Investors do not feel secure to invest in the country, which threaten the progress of the textile industry.

The purpose of the research is to discover out the problems and complications met by the textile and clothing sectors of Pakistan and try to suggest some ways which may provide some help in developing the sector.

Literature Review

The Pakistan textile sector is in miserable condition from last three years. There are numerous factors threatening the textile exports of Pakistan.

Major issues such as high cost of production, R&D Institutions, law and order situation and textile policies severely harm Pakistan Textile Industry and its exports. Import of raw cotton is the prime factor in raising the cost of production. In addition, the rising fuel prices, high interest rate, load shedding of gas and electricity are the causes of sky-high manufacturing cost. APTMA's chairman Mohsin Aziz reports that in Dec 2011 textile export of $305 million was fall because of inadequate of energy supply.

RaisZunaira said that in Pakistan, there is also scarcity of Research and Development institutions. The reason behind this is unavailability of funds and government support. People working on outdated machinery produce low quality of product. As a result, we do not have a capacity to compete in the international market.

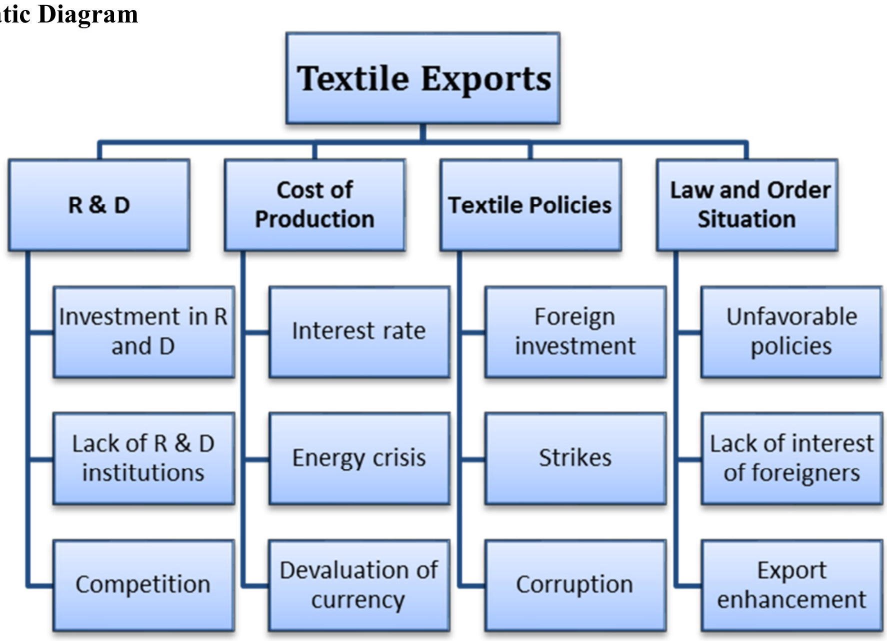
Anderson reported that cost of manufacturing of textile industry has intensified due to devaluation of currency, yarn prices as well as interest rate. Terrorism, corruption, strikes, bomb blasts, target killing, kidnapping and extortion etcetera are some of the reasons of severe law and order condition in Pakistan. Investors feel hesitation before investing in our country because of unstable political condition.

HaqShahram narrated that our major competitors are India, China and Bangladesh enjoys industry-friendly policies. Various subsidies are provided by their respective governments such as low tax ratios, rebates, affordable fuel and energy etc. For instance, both countries i.e. India and Pakistan make textile related policies to boost up their textile sectors but the execution of these policies is more reliable in India as compared to Pakistan. In Pakistan, 2009-14 $2.3 billion was allocated to the textiles industry of Pakistan but the implementation was only 15% approximately. The current allocation to the textile policies is $640 million for 2014-19.

Objective

The research is conducted to analyze the current position of the textile exports. The main objective of the research is to identify the reasons behind deficit balance of payment (BOP). The study highlights the causes of low investments in the textile sector. We also disclose the influence of law and order situations and lack of research and development institutions on the textile exports of Pakistan. The report also finds the reason of high cost of production. Finally, the study also tries to bring out the problems faced by the textile industry with reference textile policies.

Schematic Diagram



Theoretical Framework

Textile export is the dependent variable that is of our core interest. We have strived to enlighten the relationship between textile exports with the following variables (1) Research and Development Institutions (2) High cost of Production (3) Textile policies (4) Law and order situation. Research and development institution refers to organizations which put their efforts to explore new ideas and technology one can use to bring innovation in their products. In Pakistan, there are low foreign investments due to which R & D Institutions are not developing. We also don't have specialized human capital in this department. The quality of the textile products are not up to the mark resulting we are lagging behind our competitors. Cost of production refers to the cost incurred in industrializing goods. The manufacturing cost is soaring because of high yarn prices, fuel prices, interest rate, devaluation of currency etc. due to which textile exports are declining rapidly. Policy is a principle, rule and guideline formulated or adopted by an organization or government to reach its long term goals. Imposition of high taxes on every value added sector increase the cost of production. Implementation on textile policies is not in the consideration of government. They announced different subsidies but do not put into action, which affects cotton & textile industries and its exports. A state featured by compliance with standards, rules, or laws of a country. People do not want to invest in Pakistan because of instability of political environment. Law & order situation greatly harms economic conditions of Pakistan textile industry, which negatively affects the textile exports.

Scope

The motive of our research is to evaluate the ongoing activities of the textile industry of Pakistan. The research is also intended to realize the reasons for the adverse balance of payment and the recessionary phase of economy of Pakistan. The scope of our research is very fruitful for the educational institutions & specifically for students because they can get different ideas regarding research and be able to write their own articles. Our research is beneficial for textile sector of Pakistan as well because the research points out such variables that are not favorable for the textile industries. High cost of production is one of them, so in order to realize the reasons of it, managers can get assistance from our research and can make cost effective decisions regarding production.

Significance

We have researched about cotton and textile industry to redound of the textile export which is beneficial for increasing in BOP of Pakistan. The textile sector plays a noteworthy job in the contribution of industrial production, generating employment, and also for foreign exchange in term of export. Presently, it contributes approximately 8.5% to GDP and equips employment of 40% of the 49 million human resource of the state that's why it is known as the backbone of Pakistan's economy.

Business practitioners can use the result from this study to inform the people who are related to the area of textile industries that how to make their performance better. It will also give the references as a future researchers and students who will link to this issue. Importantly, this study can help them to maintain independent variables which are reason to decline in export.

Methodology

Population and Sample

The population is comprised of the textile companies all over Pakistan and the sample is consisted of 30% of the total population i.e. around 50 textile companies.

Data Collection

We have collected primary and secondary data in this study. Primary data is collected by administering questionnaires not only to the textile industries but government institutions as well as financial institutions such as State Bank of Pakistan and Pakistan Stock Exchange. We have tried to recognize the relationship between the R & D, cost of production, textile policies and law & order situation with textile exports. We have applied the tool inferential statistics i.e. Regression Analysis for data analysis.

Hypothesis

R & D

H0 = There is no relationship between R & D and textile exports

HA= There is a positive significant relationship between R & D and textile exports

COST OF PRODUCTION

H0 = There is no relationship between high cost of production and textile exports.

HA = There is a negative significant relationship between cost of production and textile exports

LAW & ORDER SITUATION

H0 = There is no relationship between law & order situation and textile exports.

HA = There is a positive relationship between law & order situation and textile exports

TEXTILE POLICIES

H0 = There is no relationship between textile policies and textile exports.

HA = There is a positive relationship between textile policies and textile exports

Regression Equation

$$y = a + b1X1 + b2X2 + b3X3 + b4X4 + €$$

Here, y is the dependent variable i.e. GDP, a is the constant number, X1 is the R and D, X2 is the cost of production, X3 is the law and order situation, X4 is textile policies and € is the error term.

Hypothesis Testing
R and D

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	Competition, investment, lack_of_RandD_ins	.	Enter

a. All requested variables entered.
b. Dependent Variable: GDP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.175[a]	.031	-.052	.40606

a. Predictors: (Constant), Competition, investment, lack_of_RandD_ins
b. Dependent Variable: GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.183	3	.061	.371	.775[a]
	Residual	5.771	35	.165		
	Total	5.954	38			

a. Predictors: (Constant), Competition, investment, lack_of_RandD_ins
b. Dependent Variable: GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.235	.259		4.770	.000
	investment	.073	.091	.136	.803	.427
	lack_of_RandD_ins	-.010	.088	-.021	-.114	.910
	Competition	.090	.128	.126	.702	.487

a. Dependent Variable: GDP

The values of beta clearly show that:

- Investment in R and D has a positive relationship with GDP
- Lack of R & D institution has an inverse relationship with GDP
- Competition has a positive relationship with GDP

Regression Equation

y = a+ b1X1+ b2X2+ b3X3+ €

y = 1.235 + .073X1 + (-.010) X2 + .090X3

Here, y is the dependent variable i.e. GDP, X1 is the investment in R and D, X2 is the lack of R & D institution and X3 is the competition.

Interpretation

a= 1.235
The contribution of textile industry in GDP would be 1.235 if all the three independent variables were equal to zero.
B1= .073
If X2 and X3 are equal to zero, the investment would be increased by .073
B2 = -.010
If X1 and X3 are equal to zero, the Lack of R & D institution would be decreased by 0.10
B3 = .090
If X1 and X2 are equal to zero, the competition would be increased by 0.90

Cost of Production

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	devaluation_of_currency, interest_rate, energy_crisis	.	Enter

a. All requested variables entered.
b. Dependent Variable: GDP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.354[a]	.125	.050	.38580

a. Predictors: (Constant), devaluation_of_currency, interest_rate, energy_crisis
b. Dependent Variable: GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.745	3	.248	1.668	.192[a]
	Residual	5.209	35	.149		
	Total	5.954	38			

a. Predictors: (Constant), devaluation_of_currency, interest_rate, energy_crisis
b. Dependent Variable: GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.326	.237		5.595	.000
	interest_rate	.217	.100	.359	2.156	.038
	energy_crisis	-.082	.101	-.138	-.809	.424
	devaluation_of_currency	-.033	.072	-.075	-.458	.650

a. Dependent Variable: GDP

Here are the sub variables of *cost of production*.
The values of beta clearly show that:

- Interest rate has a positive relationship with GDP
- Energy crisis has an inverse relationship with GDP
- Devaluation of currency has an inverse relationship with GDP

Regression Equation

y = a+ b1X1+ b2X2+ b3X3+ €

y = 1.326 + .217X1 + (-.082) X2 + (-.033) X3

Here, y is the dependent variable i.e. GDP, X1 is the Interest rate, X2 is the Energy crisisand X3 is the Devaluation of currency.

Interpretation

a= 1.235
The contribution of textile industry in GDP would be 1.326if all the three independent variables were equal to zero.
B1= .217
If X2 and X3 are equal to zero, the interest rate would be increased by .217
B2 = -.082
If X1 and X3 are equal to zero, the energy crisis would be decreased by 0.082

B3 = -.033
If X1 and X2 are equal to zero, the Devaluation of currencywould be decreased by 0.033

Law and Order Situation

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	corruption, strikes, forerign_investment	.	Enter

a. All requested variables entered.
b. Dependent Variable: GDP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.301[a]	.091	.013	.39333

a. Predictors: (Constant), corruption, strikes, forerign_investment
b. Dependent Variable: GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.540	3	.180	1.163	.338[a]
	Residual	5.415	35	.155		
	Total	5.954	38			

a. Predictors: (Constant), corruption, strikes, forerign_investment
b. Dependent Variable: GDP
These are now the sub variables of *Law and Order situation.*

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.198	.222		5.384	.000
	forerign_investment	.054	.087	.107	.620	.539
	strikes	-.018	.105	-.029	-.171	.865
	corruption	.113	.076	.259	1.488	.146

a. Dependent Variable: GDP

The values of beta clearly show that:

- Foreign investment has a positive relationship with GDP
- Strikes has an inverse relationship with GDP
- Corruption has a positive relationship with GDP

Regression Equation

y = a+ b1X1+ b2X2+ b3X3+ €

y = 1.198 + .054X1 + (-.018) X2 + .113X3

Here, y is the dependent variable i.e. GDP, X1 is the foreign investment, X2 is the strikes and X3 is the corruption and *€ is* the error term.

Interpretation

a= 1.198
The contribution of textile industry in GDP would be 1.198 if all the three independent variables were equal to zero.
B1= .054
If X2 and X3 are equal to zero, the foreign investment would be increased by .054
B2 = -.018
If X1 and X3 are equal to zero, the strikes would be decreased by .018

B3 = .113
If X1 and X2 are equal to zero, the corruption would be increased by .113

Textile Policies

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	export_enhacement, lack_of_interest_of_foreigners, unfavourable_policies	.	Enter

a. All requested variables entered.
b. Dependent Variable: GDP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.569[a]	.324	.266	.33920

a. Predictors: (Constant), export_enhacement, lack_of_interest_of_foreigners, unfavourable_policies
b. Dependent Variable: GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.927	3	.642	5.584	.003[a]
	Residual	4.027	35	.115		
	Total	5.954	38			

a. Predictors: (Constant), export_enhacement, lack_of_interest_of_foreigners, unfavourable_policies
b. Dependent Variable: GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.687	.202		3.406	.002
	unfavourable_policies	.128	.083	.251	1.534	.134
	lack_of_interest_of_foreigners	.175	.089	.284	1.971	.057
	export_enhacement	.191	.130	.238	1.469	.151

a. Dependent Variable: GDP

Textile policy is the last independent variable which has also its sub variables.
The values of beta clearly show that:

- Unfavorable policies has a positive relationship with GDP
- Lack of interest of foreigners has a positive relationship with GDP
- Export enhancement has a positive relationship with GDP

Regression Equation

y = a+ b1X1+ b2X2+ b3X3+ €

y = 0.687+ .128X1 + .175X2 + .191X3

Here, y is the dependent variable i.e. GDP, X1 is the unfavorable policies, X2 is the lack of interest of foreigners and X3 is the export enhancement and *€ is* the error term.

Interpretation

a= 0.687
The contribution of textile industry in GDP would be 0.687, if all the three independent variables were equal to zero.
B1= .128
If X2 and X3 are equal to zero, the unfavorable policies would be increased by .128
B2 = .128
If X1 and X3 are equal to zero, the lack of interest of foreigners would be increased by .128
B3 = .191
If X1 and X2 are equal to zero, the export enhancement would be increased by .191

Data Analysis

We have analyzed the subject by applying tools of inferential statistics. We have employed regression analysis to test the hypothesis and find out the relationship between the independent and dependent variables suggested.

The analysis shows that there is no relationship between textile exports with R and D institutions, cost of production and law & order situation and a relationship between textile exports and textile policies.

Limitations

In spite of the fact that we have put our full efforts, time and energy in making the findings and conclusion accurate but still there are certain limitations and constraints that bound us. The very first is, the time constraint which limits our study in actual. Researchers take years in conducting a research but, in our case, there is only a 4-months semester in which we have to finalize our research report. As we are students, there is also scarcity of funds and slow networks with industrialists and government authorities. This makes it difficult to come up with the original statistical data. Participants get biased and don't want to provide the entire information. They also turn to be reluctant in disclosing the data attributable to some external factors. Sample size is also a limitation which influences our findings. If our sample size was larger the findings of our report will be more veracious. Aftermath of the above mentioned limitations, we expect that some new research studies will be done in the near future.

Recommendations

Here are some recommendations which government should follow to enhance the productivity and exports of textile industry:

- Government while making policies for the textile industry should minimize trade barriers (tariffs and quotas), interest rate and provide maximum facilities to attract foreign investors.
- In order to stand in the foreign market there is a need that government should bring all types of taxes down to the minimum level.
- To increase the demand of Pakistani textile products, government should make electricity and gas prices economical.
- To boost the export capacity of textile products, government should emphasis on the value added products.

Conclusion

Pakistan is one of the leading producer and exporter of textile products. Pakistan's textile industry is going through one of the toughest periods. The industry is facing many problems which lead to decline the export of textile products such as energy crises, high interest rate, devaluation of currency, instability of political environment and sky-high manufacturing cost. In order to overcome these problems, government needs to pay attention towards the development and expansion of textile industry of Pakistan by giving relief on different taxes, supply energy at low-price, proper implementation on policies. If government doesn't take instant action to solve these problems then trade deficit will increase more.

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